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S E C R E T SECTION 01 OF 02 BAKU 001857

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TREASURY FOR RACHEL LOEFFLER

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SUBJECT: TREASURY VISIT TO AZERBAIJAN - THE IRANIAN THREAT
AND AZERBAIJANI FINANCIAL VULNERABILITIES

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Classified By: Charge d'Affaires Jason P. Hyland for reasons 1.4 (b)
and (d).

11. (C) Summary: During a 16-18 November visit by the U.S. Department of Treasury's Office of Terrorist Finance and Financial Crimes, GOAJ officials from the National Bank, Ministry of Finance, Ministry of Foreign Affairs, and Presidential Apparat reviewed Azerbaijan's anti-terrorism finance infrastructure. At present, Azerbaijan does not have a comprehensive law which makes money laundering and/or terrorist financing illegal; it also does not have a Financial Intelligence Unit (FIU) or similar body necessary to investigate suspicious financial activities. While Azerbaijan passed a bare-bones amendment to its criminal code making money laundering a crime in April 2006, it has yet to adopt a comprehensive Anti-Money Laundering (AML) - Counter-Terrorist Financing (CTF) law necessary to combat these crimes and comply with international standards. A draft law addressing these vulnerabilities and an "embryonic" FIU at the National Bank exist, but Azerbaijan currently lacks the legal and investigative framework necessary to effectively combat these crimes. During this visit, we pressed GOAJ officials on these issues, to encourage Azerbaijan to quickly address these vulnerabilities to its financial and banking systems. End Summary.

Azerbaijani Financial System Vulnerabilities

12. (C) At present, Azerbaijan does not have a comprehensive law that makes money laundering and/or terrorist financing illegal. Further compounding matters, Azerbaijan does not have a Financial Intelligence Unit (FIU) or any other comparable body with which to investigate such activities. While a draft Anti-Money Laundering/Counter-Terrorist Financing (AML/CTF) law has been created, it has not moved forward, reportedly stuck in the President's Office.

13. (C) According to Rufat Aslanli, Executive Director of the Azerbaijani National Bank, Azerbaijan is a Financial Action Task Force (FATF) associate member (as a Council of Europe member state) and actively enforces the provisions of UNSCR 1267 (Aslanli even stating that international conventions supersede national law). The National Bank receives the 1267 lists from three sources -the U.S. Embassy, EU, and the

Ministry of Foreign Affairs via the President's Office. The National Bank then disseminates the list to its banks with any necessary warnings.

14. (C) With regard to the creation of a FIU, Aslanli reported that an "embryonic" version of a FIU was already operational within the National Bank, with four employees tasked to analyze transactions in the bank's supervisory department. According to Aslanli, approximately 50 suspicious transactions are reported every month, with the Ministry of National Security being consulted on potential terrorism matters and the Prosecutor General's office when money laundering is suspected. Aslanli noted that the National Bank has kept a database of suspicious transactions since 2002 based on its authority to require banks to explain transactions that do not comport with a customer's profile. Hopeful that the AML/CTF draft law will be adopted soon, Aslanli also outlined how he envisioned the operations of the FIU and prospects for bilateral relationships with individual FIUs in other countries. (Note: It is still not clear where the FIU will be located once it is established and fully operational.)

Charities Oversight in Azerbaijan

15. (C) Vaqif Sadiqov, Deputy Foreign Minister, also affirmed Azerbaijan's support of and cooperation with international bodies dealing with counter-terrorism and anti-money laundering efforts. Explaining that one officer at the Azerbaijani Mission to the United Nations in New York is dedicated solely to counter-terrorism efforts, Sadiqov focused primarily on charity activity in Azerbaijan. He described how, in the early 1990s with a downtrodden economy and scarce funds, the Azerbaijani government had to accept virtually whatever sources of international charitable relief

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entered the country. The funds predominantly came from Saudi Arabia, Qatar, Kuwait, and Iran at first to support schools and provide food. When the Azerbaijani government "started to notice strange things" about the charitable activities (namely their dissemination of "propaganda" materials), the government closed key chapters down, including of the Kuwait- and Iran-based charities.

16. (C) Today, two bodies oversee charitable activities in Azerbaijan according to Sadiqov. The State Committee for Religious Affairs screens all registration applications, which every religious operation is required by law to submit. The Committee confirms that the prospectus matches the outfit's actual activities. The State Committee on Refugees, chaired by Deputy Prime Minister Ali Hassanov, coordinates with appropriate members of the interagency to insure that the requesting charity should indeed have license to operate in Azerbaijan. Referring to Azerbaijan's "sad experience" with charities, Sadiqov said that a law governing charity activities now exists and that the Ministry of Foreign Affairs and Ministry of National Security are involved in the screening and vetting of all foreign charities. Sadiqov confirmed the presence of the Iran-based Imam Khomeini Foundation and other unnamed Iranian charities, and mentioned that their activities "needed to be reviewed." In Azerbaijan since 1992, Sadiqov was not sure what the Imam Khomeini Foundation was providing now, especially in light of Azerbaijan's growing energy revenues and the likelihood that Azerbaijan "should be able to take care of its own citizens without the help of foreign organizations."

Treasury Comes to Azerbaijan

17. (S) These GOAJ meetings took place during a 16-18 November visit by Rachel Loeffler, Deputy Director in

Treasury's Office of Terrorist Finance and Financial Crimes (Middle East/Africa Division). Loeffler briefed emboffs on Iran's extensive use of its banking system, Bonyads (quasi-governmental foundations that also have commercial enterprises), and front companies in support of terrorist activities and WMD acquisition. She also outlined Treasury's efforts to address these concerns through extensive international outreach and targeted actions.

Prospects for the Future

18. (C) Comment - GOAJ officials were quick to point out their compliance with and interest in supporting international efforts aimed at combating terrorist financing and money laundering. Discussing the status of the draft law with Hasan Mammadzade, Senior Advisor in the President's Foreign Relations Department, Mammadzade said "we are here for you and want to support these efforts." However, without new, rigorous counter-terrorist financing and anti-money laundering legislation and a FIU, the GOAJ's ability to support global anti-terrorist finance initiatives will remain limited. We have pressed senior levels of the GOAJ to move quickly on all three issues, and will continue to do so. End Comment.
HYLAND